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# Remuneration Policy

For the Board of Management of  
ASML Holding N.V. (version 2010)

## **Introduction**

The Supervisory Board of ASML Holding N.V. ("ASML" or the "Company"), upon recommendation of its Remuneration Committee, developed the following remuneration policy for its Board of Management. This policy was drafted observing the amendments of the Dutch Corporate Governance Code and external developments in the market place for executive remuneration.

With respect to the best practice provisions Ultimum Remedium (II.2.10) and Claw Back (II.2.11) of the Dutch Corporate Governance Code, the Supervisory Board of ASML - per the recommendation of its Remuneration Committee - has decided to implement these provisions in the contractual relationship between the individual Board members and ASML. The Supervisory Board anticipates that, given the legal implications and the need for a diligent process, the actual implementation of these provisions will be finalized in the course of 2010.

## **Remuneration policy**

The Remuneration Policy is such that ASML will be able to continue to attract, reward and retain qualified and seasoned industry professionals in an international labour market. The remuneration structure and levels will be determined by referencing to the appropriate top executive pay market practices by benchmarking the positions.

## **Total remuneration**

The total remuneration contains base salary, short-term performance incentive in cash, long-term performance incentive in shares and benefits. It aims to balance and align the remuneration with short-term execution and long-term elements of the managerial tasks of Management.

## **Balance between remuneration elements**

Whilst referencing to the relevant market on the one hand, the aim is to find a balance between guaranteed base salary and variable performance related incentives on the other hand. This is achieved by using the target level ratio between base salary, cash incentive and performance shares of 100 – 75 – 80 for the CEO and 100 – 60 – 80 for all other Board of Management members. Furthermore, overachievement on targets set for performance shares will be rewarded, with a maximum of 146.25% of base salary.

## **Benchmark**

Given the international composition of ASML's business as well as ASML's staff, the base salary, together with short- and long-term incentives (Total Direct Compensation) will be measured against the market median of the appropriate top executive reference market every two years.

## **Base Salary**

The level of base salary is not separately benchmarked, but derived from the median level of the benchmark on Total Direct Compensation as described above. In addition, the Remuneration Committee considers the appropriateness of any change of base salary based on the market environment as well as the salary adjustments for other ASML employees.

## Short-term Cash Incentive

The annual performance related cash incentive will have an on target level of 75% of base salary for the CEO and 60% for the other members of the Board of Management. The payouts are prorated linearly to the level of achievement of six performance criteria. Three of these performance criteria are based on the achievement of measurable financial targets, one on technology based objectives and one on achievements in the market place. In principle, the weighting of each of these five criteria is equal (weighted 80% in total). The six<sup>th</sup> target is based on qualitative objectives (weighted 20%). The setting and measuring period of the first four targets is semi-annual. The setting and measuring period of the fifth and sixth target is annual. The overall payout is annual.

The short-term performance criteria refer to financial and other parameters that are used to drive the business and are, in principle:

1. Direct Material Margin on New Systems
2. Total Company Cost Base
3. Operating Cash Flow
4. Technology Leadership Index
5. Market Position
6. A qualitative target based on agreed key objectives

The cash incentive is accrued during the performance period.

## Performance Shares

Performance shares will be awarded annually under the condition of fulfilment of predetermined performance targets, which are measured over a period of three calendar years. The performance measures for obtaining performance shares will be:

- ASML's relative Return on Average Invested Capital (ROAIC) position compared to the Peer Group (weighted 80%)
- A qualitative target related to ASML's long term ability to keep performing at high standards (weighted 20%)

ROAIC shows ASML's cash rate of return on capital it has put to work, regardless of the capital structure of the company. In other words ROAIC is a fundamental metric to measure the value creation of the company. In order to calculate ROAIC two components will be used: net operating profit (NOP) and average invested capital (AIC). ROAIC is then defined as:

$$\text{ROAIC} = \text{NOP} / \text{AIC}.$$

The Peer Group which is used for the measurement of ASML's relative ROAIC position currently contains KLA-Tencor, Varian Semiconductor, Applied Materials, Novellus, Cymer, Lam Research, MKS Instruments, Advanced Energy, Asyst and ASMI.

The number of performance shares will be awarded relative to the targeted ROAIC position and the achieved ROAIC position and the evaluation of the qualitative target by the Supervisory Board.

The number of performance shares to be awarded in case of on target achievement will equal 80% of base salary divided by the value of one performance share. Although ASML defines stretching targets, there is also a possibility to reward overachievement. In case of higher achievement than the on target performance, the value of performance shares for such

overachievement can reach 146.25% of base salary. The exact number of performance shares that will be awarded unconditionally will be calculated at the end of the performance period, based on a predefined payout matrix. The number of performance shares is accrued during the calendar year in which the conditional award is done.

The value of a performance share is calculated at the beginning of the performance period, on the day of publication of ASML's annual results in the year in which the targets are set, using the market value of the underlying share during the three preceding years, in line with US GAAP and applying a performance discount of 30% in line with market practice.

The number of performance shares to be awarded conditionally (based on the maximum achievable value of 146.25% of base salary in case of overachievement) will be calculated at the beginning of the performance period in the first year. The same number of performance shares will be applied for the conditional award of performance shares for the next year (the start of the next three year performance period). A new determination of the number of performance shares will be made in the first year of the next two year's benchmarked period.

Once the shares are unconditionally awarded after fulfilment of the performance conditions, the shares will be retained by the Board of Management member for a certain minimum period. This period will be at least two years after the date of unconditional award or until the termination of employment, whichever period is shorter. As the date of the unconditional award lies three years after the date of the conditional award and the Board of Management member has to retain the shares for at least two subsequent years, the period before the Board of Management member obtains full rights to the shares will be five years in total. The Supervisory Board considers the total period as in compliance with the Dutch Corporate Governance Code. In so far as taxation is due in respect of the unconditionally awarded shares, the Board of Management Member will be allowed to sell unconditionally awarded shares with a value equal to the amount of the tax due.

## **Benefits**

ASML offers its Board of Management members a pension plan based on a defined contribution. The total defined contribution is a percentage of the pensionable salary and is dependent on the participant's age at the beginning of the year. The total contribution percentage lies between 5.91% and 26.94%. The participant pays 30% of this contribution, whilst ASML pays the remaining 70%.

In line with the adjustments that will be made in the (Defined Contribution) excedent pension arrangement for employees of ASML in The Netherlands, which pensions will be increased to the median market level, the Supervisory Board intends to also adjust the pension scheme for the Board of Management in the course of 2010. A separate benchmark on top executive pension arrangements of AEX listed companies has revealed that the current pension arrangement for the Board of Management is below median market level, which, in the opinion of the Supervisory Board, justifies this alignment

### **Benefits upon termination of employment**

Employment agreements with Board of Management members concluded prior to March 31, 2004 do not contain specific provisions regarding benefits upon termination of those agreements. Potential severance payments in such case will be according to applicable law.

Employment agreements for members of the Board of Management appointed after March 31, 2004 do contain specific provisions regarding benefits upon termination of those agreements. If the Company gives notice of termination of the employment agreement for reasons which are not exclusively or mainly found in acts or omissions on the side of the Board of Management member, a severance amount equal to one year base salary will be made available upon the effective date of termination. This severance payment will also be made available in case the

Board of Management member gives notice of termination of the employment agreement in connection with a substantial difference of opinion between the respective executives and the Supervisory Board regarding his employment agreement, his function or the Company's strategy.

Furthermore, Board of Management members with an employment agreement dated after March 31, 2004 shall also be entitled to the aforementioned severance amount in the event ASML or its legal successor gives notice of termination in connection with a Change of Control (as defined in the employment agreement) or if the Board of Management member gives notice of termination, which is directly related to such Change of Control and such notice is given within twelve months from the date on which the change of Control occurs.

## Appendix 1: Reference Market

The current reference group used for benchmarking includes:

- Nokia (network division)
- Alcatel
- Atos Origin
- Cap Gemini
- Logitech
- Infineon Technologies
- SAP
- ASM International
- DSM
- KPN
- Océ
- Randstad
- Reed Elsevier
- Wolters Kluwer
- St Microelectronics
- Computacenter
- LogicaCMG
- Capita Group
- Gemalto
- NXP

Getronics, Carl Zeiss Meditec and Vedior, who were part of ASML's reference group in the past, are replaced by Reed Elsevier, Logitech and Gemalto.

## Appendix 2: Termination of Employment and Share Based Incentive

The table below summarizes the effect of various forms of termination of employment of a Board of Management Member in relation to conditional and unconditional performance shares as incorporated in the various related plan documents or employment contract.

<b>Termination <u>during</u> performance period Reason:</b>	<b>Performance Shares</b>
Death, incapability to act, disability or pension	Completed performance years: handled according to plan.
Successful completion of contractual period	Uncompleted performance years related to shares conditionally awarded before the year of exit: Peer Group ranking handled according to plan, Qualitative targets handled based on the average result of the last three completed performance years.
Exit related to Change in Control	Year of exit: <ul style="list-style-type: none"> <li>No shares will be awarded conditionally in case leaving is known at the regular moment of conditional award of shares.</li> <li>Shares conditionally awarded in the year of exit will be withdrawn at the moment of exit.</li> <li>The Supervisory Board has, at its full discretion, the authority to pay a cash amount (pro-rated) at the moment of exit, based on the average payout of the last three completed performance years as compensation for the shares in the year of exit.</li> </ul>
Exit initiated by the company related to performance issues	Completed performance years: handled according to plan.
Exit on behalf of the employee during the contract/nomination period	Uncompleted performance years: conditionally awarded shares will be withdrawn. The Supervisory Board has the authority, at its full discretion, to overrule this withdrawal and decide upon unconditional grant and release of shares.
Dismissal for cause	All shares conditionally awarded in the 3 year performance period will be withdrawn.
<b>Termination <u>after</u> performance period Reason:</b>	<b>Performance Shares</b>
Death, incapability to act, disability or pension	Handled according to plan (shares in blocking period will be unblocked).
Successful completion of contractual period	
Exit related to Change in Control	
Exit initiated by the company related to performance issues	
Exit on behalf of the employee during the contract/nomination period	
Dismissal for cause	